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C O N F I D E N T I A L SECTION 01 OF 04 MOSCOW 001424

SIPDIS

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#) [EU](#)  
SUBJECT: LATEST RUSSIA-EU SUMMIT, LIKE ITS IMMEDIATE  
PREDECESSORS, PRODUCES FEW RESULTS

REF: MOSCOW 1120

Classified By: DCM ERIC RUBIN for Reasons 1.4 (b/d)

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Summary  
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¶1. (C) The May 21-22 Russia-EU Summit, held in Khabarovsk in the Russian Far East (RFE), resulted in no breakthroughs on major energy, political and trade issues. Press reports focused on continuing "tensions" over energy, a topic dominated by Russia's push for the EU to finance Ukraine's gas needs in order to avoid another crisis. Russian officials expressed continued concern over the EU's Eastern Partnership Initiative (EPI), with President Medvedev saying he was not convinced that it was not directed against Russia. Trade was another sticking point, with the Russia side expressing frustration over the slow pace of WTO accession and the EU protesting Russian protectionism. Euro-Atlantic security was also a major topic of discussion, with the MFA reporting to us that the Summit achieved "greater understanding" between the two sides. However, a Czech representative reported to us that the Russians presented "nothing new." The location of the Summit in the RFE, a stone's throw from China loomed large in press accounts and analyses. Medvedev said the 11-hour flight from Brussels cemented "the greatness of Russia" in the minds of the European Commissioners, but one commentator quipped that it only showed the Europeans Russia's vast emptiness. End summary.

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Energy  
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¶2. (SBU) On the issue of gas, both sides agreed on the need to avoid a repeat of previous years' gas crises and ensure the uninterrupted flows of Russian gas through Ukraine. However, there was no agreement or clarity regarding the mechanism by which this goal could be achieved. At the press conference following the Summit President Medvedev stressed that the problem would not be with Russian supplies but with Ukraine's inability to pay. President Medvedev suggested at the Summit that the EU offer Ukraine some form of financing in order to prevent supply disruptions. Barroso's public comments were limited to statements that both Russia and Ukraine must do everything in their power to avoid another gas cutoff.

13. (C/NF) The EC Delegation's Counselor for Energy, Environment, Science, and Transportation, Ulrich Weins (strictly protect), told us May 26 that the Russians had "pushed hard" on the issue of financing Ukraine's gas needs. Weins, who was not present at the Summit, said he had no information on whether the EU was seriously considering such an option. He agreed, however, that the EU has a strong interest in seeing Ukraine's storage facilities full before the winter. EC Delegation First Secretary Kevin Tait told us May 28 that Russia was creating an artificial crisis by demanding that Ukraine prepay for its gas and that if Ukraine refused, the GOR would face a decision June 7 on whether to cut supplies to Ukraine.

14. (SBU) The two sides also discussed Russia's proposal for a new legal framework for energy trade (reftel), with Russia, as expected, pressing for a "new" system. President Medvedev reiterated that Russia does not intend to ratify the existing Energy Charter Treaty (ECT) to which it is a signatory. The EU, for its part, maintained its position that there is no need to replace the ECT, but that it is willing to discuss with Russia its concerns and proposals related to this issue.

15. (C/NF) On the ECT, Weins said that the two sides "seem to have divergent views on the need for open access to transit systems" and also on what constitutes open investment regimes in the energy sector. Weins said that the EU is unwilling to abandon the ECT, the principles of which are sound, and to which so many states have already agreed. That said, Weins added that the EU is "happy to discuss" any Russian proposal, but that "there is nothing on the table yet to discuss."

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16. (C) Russian MFA EU Unit head Petr Plikhin, who was present at the Summit, told us May 28 that the EU had agreed to work with Russia to create a new, binding energy security agreement that would be based on Medvedev's statement of principles and the existing EU Energy Charter Treaty. Plikhin also underlined that the EU needed to work now to avoid another gas crisis because in Russia's view, Ukraine could not meet its payments for gas consumption now and would not have funds to fill gas storage facilities necessary to deliver gas to Europe next winter. He added that the GOR, for its part, has maintained that Russia is ready to participate in a financial assistance package to Ukraine. However, Ukrainian Embassy Counselor Myroslava Scherebatiuk told us separately that she finds it odd that Russia was so concerned about helping Ukraine as "Ukraine had never asked Russia for this favor."

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Trade  
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17. (C/NF) The two sides also discussed trade and other economic issues during the Summit, again, without any substantive results. EU officials complained about recent protectionist measures and policies on the part of Russia, while Russian officials voiced frustration about insufficient progress on Russia's accession to the WTO. According to Plikhin, Russia said at the summit that it was looking to reinvigorate its WTO efforts and hopes to accede by the end of the year. Czech Embassy First Secretary Pavel Bucek, who was also present at the Summit, discounted Russia's "take us soon or else" WTO strategy as a negotiating position.

18. (C/NF) Describing the trade discussions in more detail, Bucek said the summit revealed that "both sides were guilty of imposing tariff and non-tariff trade barriers," but that the sides would continue to "coordinate." Echoing Bucek, Plikhin said each side had "reviewed" what the other was doing with respect to protectionism: the EU hit Russia for relying on tariff measures to protect Russian industries, while Russia highlighted the EU's use of internal subsidies to protect European industries. He said Russia would

continue the dialogue begun with the European Commission in February on these points.

¶9. (C/NF) Barbara Stacher, a first secretary in the EC Moscow Delegation's Economic, Agriculture and Trade Section (please protect), did not attend the Summit but shed more light on the trade issues from detailed readouts from the EU delegation that she shared with us. Stacher told us that EC President Barroso and Czech President Klaus had expressed concern over Russia's recent protectionist measures. In their meeting with Medvedev, they had argued that recent duty increases, such as on imported automobiles, were inconsistent with recent G20 Summit statements to avoid protectionism in response to the global economic crisis.

¶10. (C/NF) Stacher said Medvedev had acknowledged Russia's G20 commitments, but said it was "not easy for all countries" to abide by them in the current economic circumstances and he had asserted that Russia's actions were "commensurate" with actions by the EU and other economic blocks to protect domestic industries. According to Stacher, Medvedev had also reaffirmed Russia's commitment to join the WTO and had told the EU representatives that Russia wanted "to accede as soon as feasible," while acknowledging that some key issues, such as the timber export duty (a sensitive issue for EU members Finland and Sweden), had been left to the end and still needed resolution.

¶11. (C/NF) Stacher said that EU Trade Commissioner Ashton and Economic Development Minister Nabiullina had met separately to discuss some of the thorny EU-Russia trade issue in more detail. Nabiullina had expressed hope that Russia and the EU could make progress on WTO accession by the end of summer ¶2009. To that end, she said the two sides should aim to provide clear guidance to technical level experts on all outstanding issues following meetings on the margins of the St. Petersburg International Economic Forum June 4-6. Stacher said Nabiullina had reiterated the long-held Russian

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view that as the accession had dragged on, WTO members, including the EU, had asked Russia to do more and more. However, when pressed by Ashton, Stacher said Nabiullina had been unable to back up this assertion with any concrete examples.

¶12. (C/NF) Stacher said Ashton, in turn, had voiced EU concerns about creeping Russian protectionism. Ashton had not only criticized recent duty increases on specific imported products but also the recent draft Russian customs and tariff policy planning document that appeared to contemplate duty increases for particularly vulnerable domestic industries over the course of the next three years. Nabiullina had responded that she understood the EU's concerns, but insisted that the impact of recent duty increases were smaller than the non-tariff measures that the EU had implemented in the form of subsidies and state support to EU domestic industries.

¶13. (C/NF) Stacher said as in the previous summit, Nabiullina again floated the idea of an EU-Russia "early warning system," where each side would notify and consult with the other regarding any contemplated duty increases. However, she said Ashton had maintained the EU's non-committal attitude toward the idea, which Stacher said they regard as clearly duplicative of the notice and consultation provision that already exists in the EU-Russia Partnership and Cooperation Agreement.

¶14. (C/NF) Finally, Stacher said Nabiullina had told Ashton that Russia would proceed with plans for a Customs Union with Kazakhstan and Belarus but would do so in sync with WTO accession. However, she had warned that if accession progress continued to move at a slow pace, Russia would forge ahead with the Customs Union alone. (Comment: Stacher and other EU diplomats have told us privately they are concerned

that the Customs Union could complicate reaching agreement at the WTO on Russia's bound tariff rates as of the date of accession.)

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Eastern Partnership Initiative  
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¶15. (C/NF) President Medvedev said publicly at the close of the summit that the EU had failed to convince him completely that the EU's Eastern Partnership Initiative (EPI), adopted at a May 7 summit in Prague, was not directed against Russia's interests in the former Soviet Union. Georgi Mikanau of the MFA's General European Cooperation Department told us May 28 that in Russia's view the EU must ensure that it does not violate a 2005 commitment not to overlap with agreements made under the Commonwealth of Independent States or to challenge integration processes underway in the Euro-Asian Economic Council or the Russian-Belarus Union State. He also told us Russia would be sensitive to the comments of EPI partner states. The EC's Tait told us that the EU-Ukraine agreement to upgrade Ukraine's gas pipeline network had seriously undermined EU efforts to assuage Russian concerns over the EPI, which had been reflected at the Summit.

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Euro-Atlantic Security Treaty and Frozen Conflicts  
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¶16. (C/NF) One area where the GOR publicly and privately claimed to have made progress was on the Euro-Atlantic Security Treaty. Plikhin said the initiative had gathered more interest and understanding in the year since Medvedev proposed it. With regard to the frozen conflicts, the MFA's Mikanau told us that while the two sides raised the issues of Georgia and Moldova at the summit, Russia framed them as examples of challenges to the existing European security structure, lumping them in with Cyprus and Kosovo.

¶17. (C/NF) With respect to the proposed Euro-Atlantic Security Treaty, the Czech Embassy's Bucek was dismissive of Russian claims of progress, noting that Medvedev had offered nothing new on proposal. Bucek told us the EU had not pressed Russia on Georgia beyond asking for greater

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humanitarian assistance access to South Ossetia, expressing its disappointment for Russia's lack of support for OSCE monitors, and urging Russia to continue with the Geneva talks.

¶18. (C/NF) According to Bucek, Medvedev thanked the EU for its role in helping to resolve the Georgia conflict in August last year, but also underlined that he did not view Georgia as a democratic regime and said that Russia would not deal with Georgian President Saakashvili. However, Russia would restore "traditional brotherly relations" after a new leader comes to power in Georgia. Medvedev asked the EU to accept the new realities on the ground and not to ignore the existence of two new states, South Ossetia and Abkhazia. The MFA's Mikanau and Plikhin denied that there was any substantive engagement on Georgia.

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Location  
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¶19. (C/NF) Many observers viewed the venue of Khabarovsk in the Russian far east (RFE), a stone's throw from China, as a not-too-subtle signal that Russia would look East for future economic, energy and trade opportunities if the EU did not eventually choose to play ball on resolving key issues. Plikhin echoed to us President Medvedev's comment that the eleven-hour flight from Brussels cemented "the greatness of Russia" in the minds of the European Commissioners. One

commentator, however, suggested the remote location only served to emphasize Russia's vast emptiness.

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COMMENT  
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¶20. (C) Given the frequency of these summits, it strikes us that the glacial pace of progress is becoming problematic. Each summit that ends without results feeds a growing perception that the EU-Russian relationship is fraught with intractable disagreements. Fewer summits with clearer deliverables might be preferable. As one Russian pundit noted, perhaps the two sides should meet in smaller working groups and slowly resolve their issues beginning with easier items, before working their way up to summits.  
BEYRLE